

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, February 19, 1999
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room of the ASRS office at 3300 North Central Avenue, Phoenix, Arizona 85012. Mr. Karl Polen, Chairman, Arizona State Retirement System Board called the meeting to order at 9:02 A.M., MST.

The meeting was teleconferenced to the ASRS office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

Because of the Chairman's illness, Mr. Karl Polen relinquished the Chair and asked that Mr. James Jenkins, Vice Chairman, conduct the Board meeting.

1. Call to Order; Roll Call

Present: Mr. Karl Polen, Chairman
Mr. James Jenkins, Vice Chairman
Dr. Merlin DuVal
Mr. Alan Maguire
Mr. James Bruner
Dr. Chuck Essigs
Mr. David Borg

Excused: Mr. Norman Miller
Mr. Ray Rottas

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the January 15, 1999 Regular Meeting of the Arizona State Retirement System Board and the Summary of the January 15, 1999 Executive Session.

Motion: Dr. Chuck Essigs moved to approve the minutes of the January 15, 1999 regular meeting of the ASRS Board.

Mr. James Bruner seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

The approval of the summary of the January 15, 1999 Executive Session was postponed to the March 19, 1999 Board meeting.

3. Board Approval of Consent Schedule.

Motion: Dr. Merlin DuVal moved that the ASRS Board approve the Summary Report of Retirements, Refunds, and Death Benefits; and System Transfers.

Mr. James Bruner seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the Fiscal Year 1998 Audit Findings and Annual Report.

Mr. John Hunter, Partner, Deloitte & Touche, presented the financial report for the year ended June 30, 1998.

Motion: Mr. James Bruner moved to accept and adopt the recommendations from the Board Audit Committee to accept the fiscal year 1998 independent auditor's report.

Mr. David Borg seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

Mr. Alan Maguire was excused at 9:25 a.m.

5. Board Hearing and Action by the Board Regarding the Request for Hearing of Ms. Linda Fern Eisele.

The Board reviewed the request of Ms. Linda Fern Eisele regarding the receipt of long-term disability payments from July 1997 until she no longer is totally disabled or otherwise is not eligible for benefit payments under the LTD program. Ms. Pamela Moore, a representative from Fortis, the ASRS long-term disability administrator joined the discussion via teleconference call.

Discussion with Ms. Linda Fern Eisele, Ms. Moore and Mr. Fred Stork, Assistant Attorney General representing the ASRS, regarding the nature of Ms. Eisele's disability resulted in the following motion.

Motion: Dr. Merlin DuVal moved that the Board continues its determination of this matter and directs the administrator, Fortis Benefits, to arrange for an independent medical examination and such other examinations as may be appropriate, including peer review of medical documents, to assist the Board in determining whether Linda Fern Eisele is unable to perform any work for compensation or gain for which she is reasonably qualified by education, training or experience.

Dr. Chuck Essigs seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

6. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance for the Period Ending December 31, 1998.

Mr. Terry Dennison, Principal, Mercer Investment Consulting presented the ASRS Total Fund Performance for the period ending December 31, 1998.

Total Fund Performance for Periods Ending December 31, 1998

	Qtr	1 Year	3 Years	5 Years	10 Years
Total ASRS Fund	15.5	22.2	18.5	16.0	14.4
Benchmark	13.9	21.1	17.5	15.4	14.4
TUCS Public Fund Median	11.4	14.5	15.4	13.8	13.0

Performance vs. Benchmarks for the 3 Years Ending December 31, 1998

	Port ROR	Bmk ROR	Assumed ROR	Port SD	Bmk SD	Assumed SD
Total ASRS Fund	18.5	17.5	9.3	11.8	10.6	10.2
Domestic Equity	27.0	28.2	10.2	17.1	16.2	16.2
Domestic Fixed	7.3	7.3	7.0	4.4	3.7	7.0
International Equity	8.6	9.3	10.6	19.4	19.2	19.7

Performance vs. Benchmarks for the 5 Years Ending December 31, 1998

	Port ROR	Bmk ROR	Assumed ROR	Port SD	Bmk SD	Assumed SD
Total ASRS Fund	16.0	15.4	9.3	10.2	9.2	10.2
Domestic Equity	23.0	24.1	10.2	14.4	13.9	16.2
Domestic Fixed	7.5	7.3	7.0	6.0	4.7	7.0
International Equity	8.4	9.5	10.6	15.0	14.9	19.7

Note: Because ASRS Board members needed to be excused from the meeting early, agenda items requiring action were addressed first.

Mr. Karl Polen, Chairman, resumed the Chair from Vice Chairman, Mr. James Jenkins.

7. Presentation, Discussion and Appropriate Action Regarding the Board Approval of the Renewal of the Mellon Trust Contract for Custodial Bank Services.

Mr. LeRoy Gilbertson reported that the first of four renewal periods under the custodial bank contract with Mellon Trust is expiring April 23, 1999. ASRS staff from IMS and ASD have steadily monitored the company's performance and have concluded that Mellon has executed the contractual responsibilities satisfactorily.

Motion: Mr. James Bruner moved to approve the recommendation to extend the custodial bank contract with Mellon Trust to April 23, 2000, with a 3% increase in fees as accepted in Mellon's original proposal.

Mr. James Jenkins seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 3 excused, the motion was approved.

Mr. Alan Maguire re-joined the meeting at 10:33 a.m.

8. Presentation, Discussion and Appropriate Action Regarding SB 1087.

Mr. LeRoy Gilbertson stated that Senate Bill 1087 allows certain Game and Fish employees, presently covered by the Public Safety Personnel Retirement System (PSPRS), to pay back monies previously refunded to them by the ASRS. Their accounts would then be transferred to the PSPRS in accordance with statutory provisions.

Dr. Merlin DuVal addressed the fact that it would be grossly unfair to current members of the ASRS to allow Game and Fish employees to pay only one half of the interest, as this would cause a loss to the ASRS of approximately \$141,000. The ASRS would be at a loss of approximately \$36,000 if full interest were paid.

Mr. Norris Dodd, an employee of the Arizona Game and Fish present in the Tucson public, addressed the Board. Mr. Dodd presented reasons to support Senate Bill 1087, and asked that the Board take these reasons into consideration when contemplating their position regarding this issue.

Motion: Dr. Merlin DuVal moved that the ASRS convey to the legislature the ASRS' concern for current members and negotiate with Arizona Game and Fish to require the full amount of interest be paid back to the ASRS.

Mr. James Bruner seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

9. Presentation, Discussion and Appropriate Action Regarding Participation of Life Enrichment Community School.

Mr. Fred Stork, Assistant Attorney General, reported that at the September 19, 1997 meeting, the Board approved the Life Enrichment Community School as a participating employer in the ASRS, effective October 1, 1997. Mr. Stork stated that at the September 19, 1997 Board meeting, Board members and ASRS staff were not aware that the School had not decided to participate in the ASRS, or that the School still was in the decision-making process of what pension plan to offer to its employees.

As a result of the mutual misunderstandings of the ASRS and the School at the time of the September 19, 1997 ASRS Board meeting, the following motion was made.

Motion: Mr. James Jenkins moved to rescind the approval of Life Enrichment Community School's participation in the Arizona State Retirement System, effective September 19, 1997, on the condition that the School provides a letter certifying their employees have been notified that they are not members of the ASRS and that the School hold harmless the ASRS for any claims against the ASRS for benefits.

Mr. Alan Maguire seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

10. Board Requests for Agenda Items

Mr. Karl Polen announced that he and Mr. James Jenkins met with Ted Ferris in the Governor's Office and the feedback regarding the ASRS is very favorable. Mr. Polen reported that the Governor stated she views the ASRS as one of the great strengths of the State and feels the ASRS has done a great job in fostering the program of improving State service by encouraging the hiring of quality employees.

11. Call to the Public.

There were no requests to speak from the Phoenix or Tucson public.

12. Consideration and Discussion of the Salary of the Director of the ASRS.

Motion: Mr. James Bruner moved that the Board convene to Executive Session to discuss the salary for the ASRS Executive Director for Year 1999.

Mr. James Jenkins seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

The ASRS Board recessed the Regular Session at 10:56 A.M.

The Board reconvened to Regular Session at 11:24 A.M.

13. Presentation, Discussion and Appropriate Action Regarding the Salary of the Director of the ASRS.

Motion: Dr. Chuck Essigs moved to approve the following 1999 salary structure for Mr. LeRoy Gilbertson: a base salary of \$102,895 and pay for performance of \$5,145 for a total salary of \$108,040 effective January 1, 1999.

Dr. Merlin DuVal seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 2 excused, the motion was approved.

Mr. James Bruner was excused at 11:25 a.m.

14. Presentation, Discussion and Appropriate Action Regarding the Performance of Domestic Small Cap Equity Managers for the Period Ending December 31, 1998.

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc., reported on the Investment Manager's performance for Axe-Houghton & Associates, Brandywine, Dimensional Fund Advisors, and Mellon Capital Management for the period ending December 31, 1998.

Dr. Merlin Duval was excused at 11:32 a.m.

Mr. Seth Lynn, President reported on Axe-Houghton & Associates' performance for the period ending December 31, 1998.

	Qtr Ending 12/31/98	Inception Date (08/31/98)
Style (Value Advantage)	(7.24)	(10.18)
Sector Selection	0.00	0.00
Stock Selection	1.00	(4.54)
Other		
Fees	(0.03)	(0.04)
Total Value Added	(6.27)	(14.76)

Mr. Adam Spector, Director of Client Services and Steven Tonkovich, Portfolio Manager reported on Brandywine's performance for the period ending December 31, 1998.

	Qtr Ending 12/31/98	Inception Date (08/31/98)
Sector Selection	(1.2)	(3.0)
Stock Selection	(4.8)	(9.5)
Other		
Fees	0.1	0.1
Total Value Added	(6.1)	(12.6)

Mr. James Jenkins was excused at 11:40 a.m.

Mr. David Schneider, Regional Director and Robert Deere, Vice President and Portfolio Manager reported on Dimensional Fund Advisors' performance for the period ending December 31, 1998.

	Qtr Ending 12/31/98	Inception Date (08/10/98)
Sector Selection	(1.46)	(2.84)
Stock Selection	(3.00)	(3.00)
Other **	(0.97)	(3.99)
Fees	(0.06)	(0.08)
Total Value Added	(5.49)	(9.91)

** Turnover, trading experience and cash flow.

Mr. Richard Forster, Vice President and Senior Client Service Officer and Ms. Polly Shouse, Executive Vice President reported on Mellon Capital Management's performance for the period ending December 31, 1998.

	Qtr Ending 12/31/98
Benchmark Return	16.308
Stock Selection	0.313
Securities Lending	0.030
Other (Cash Drag)	(0.038)
Fees	(0.006)
Total Value Added	0.3

15. Director's Report.

Because of time constraints, the Uncollected Employer Contributions report by Mr. Fred Stork, Assistant Attorney General was postponed to the March 19, 1999 ASRS Board meeting.

16. The next ASRS Board meeting is scheduled for Friday, March 19, 1999 at 9:00 a.m. in the Board Room of the ASRS Office, 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona.

17. Adjournment of the ASRS Board.

Mr. Karl Polen, Chairman adjourned the February 19, 1999 meeting of the ASRS Board at 12:40 p.m.

Respectfully submitted,

Jalene Trivino, Secretary

Date

LeRoy Gilbertson, Director

Date